

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Lake County Road Commission	County Lake
Audit Date December 31, 2005	Opinion Date April 6, 2006	Date Accountant Report Submitted to State: June 16, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

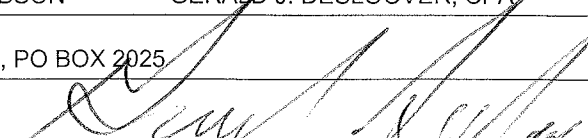
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

Lake County Road Commission
(A Component Unit of Lake County)

Baldwin, Michigan

Financial Statements

For the Year Ended December 31, 2005

LAKE COUNTY ROAD COMMISSION
(A Component Unit of Lake County)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements for the Year Ended December 31, 2005	
Statement of Net Assets and General Fund Balance Sheet	10
Reconciliation of General Fund Balance Sheet to Statement of Net Assets	11
Statement of Activities and General Fund Revenues, Expenditures and Changes in Fund Balance	12
Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	13
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	14-15
Notes to Financial Statements	16-24
Operating Fund Schedules	
General Operating Fund – Schedule of Revenues by Component	25
General Operating Fund – Schedule of Expenditures by Component	26
General Operating Fund – Schedule of Changes in Fund Balance	27



REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

April 6, 2006

Members of the Board of County
Road Commissioners
County of Lake, Michigan
Baldwin, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Lake County Road Commission**, a component unit of Lake County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Lake County Road Commission** as of December 31, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Lake County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Lake County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Lake County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The *statement of net assets* presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Lake County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Lake County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 24 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The Road Commission's net assets increased approximately 4% or \$170,678, from \$4,387,902 to \$4,558,580 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Lake County Road Commission Net Assets:

	<u>2005</u>	<u>2004</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 2,037,723	\$ 2,018,223	\$ 19,500	1.0%
Capital assets	<u>2,801,414</u>	<u>2,685,847</u>	<u>115,567</u>	4.3%
Total assets	<u>4,839,137</u>	<u>4,704,070</u>	<u>135,067</u>	2.9%
Current and other liabilities	72,608	102,409	(29,801)	-29.1%
Long-term liabilities outstanding	<u>207,949</u>	<u>213,759</u>	<u>(5,810)</u>	-2.7%
Total liabilities	<u>280,557</u>	<u>316,168</u>	<u>(35,611)</u>	-11.3%
Net assets:				
Invested in capital assets	2,801,414	2,685,847	115,567	4.3%
Unrestricted	<u>1,757,166</u>	<u>1,702,055</u>	<u>55,111</u>	3.2%
Total net assets	<u>\$ 4,558,580</u>	<u>\$ 4,387,902</u>	<u>\$ 170,678</u>	3.9%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Lake County Road Commission, assets exceeded liabilities by \$4,558,580 at the close of the most recent fiscal year.

By far the largest portion of the Lake County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment).

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2005 and 2004 follows:

	<u>December 31</u> <u>2005</u>	<u>December 31</u> <u>2004</u>
Program revenue		
Charges for services	\$ 687,307	\$ 620,942
Operating grants and contributions		
State transportation funds	2,806,877	2,937,032
Capital grants and contributions		
Federal and state sources	612,974	460,789
General revenue		
Interest and rents	15,663	12,711
Contributions	5,068	-
Reimbursements	2,189	-
Gain on equipment disposal	-	116,669
Total revenue	<u>4,130,078</u>	<u>4,148,143</u>
Expenses		
Public Works	<u>3,959,400</u>	<u>3,178,667</u>
Increase (decrease) in net assets	<u>\$ 170,678</u>	<u>\$ 969,476</u>

Governmental activities increased the Lake County Road Commission's net assets by \$170,678. The key elements of this increase are as follows:

- There was an 11% increase in charges for services from the prior year.
- There was a 4% decrease in operating grants and contributions from the prior year.
- There was a 33% increase in capital grants and contributions from the prior year, due to additional non-recurring maintenance projects that were funded with grants and contributions in the current year.
- There was an 83% decrease in general revenue from the prior year, due to a gain on selling a piece of equipment in the prior year.
- There was a 25% increase in expenses from the prior year, due to additional non-recurring maintenance projects completed in the current year.

A summary of changes on the Operating fund is as follows:

	For the year ended December 31, 2005				Actual for the Year Ended December 31 2004
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	
Revenue					
State sources	\$ 3,137,500	\$3,305,402	\$ 3,419,851	\$ 114,449	\$ 3,397,821
Contributions	88,000	87,666	152,629	64,963	261,453
Charges for services	383,500	565,040	534,678	(30,362)	359,489
Interest and rentals	1,300	12,820	15,663	2,843	12,711
Other revenue	-	-	7,257	7,257	116,669
Total revenue	<u>3,610,300</u>	<u>3,970,928</u>	<u>4,130,078</u>	<u>159,150</u>	<u>4,148,143</u>
Expenditures					
Primary road maintenance	1,265,000	1,496,444	1,781,239	(284,795)	1,719,312
Local road maintenance	1,560,000	1,448,596	1,810,649	(362,053)	1,672,670
State trunkline maintenance	382,000	453,099	484,271	(31,172)	357,740
Equipment expense (net)	270,000	(259,136)	(99,841)	(159,295)	(62,214)
Administrative expense (net)	260,000	201,760	275,551	(73,791)	285,015
Capital outlay (net)	(151,000)	(171,092)	(171,092)	-	(58,672)
Other	24,300	-	-	-	-
Total expenditures	<u>3,610,300</u>	<u>3,169,671</u>	<u>4,080,777</u>	<u>(911,106)</u>	<u>3,913,851</u>
Net change in fund balance	-	801,257	49,301	(751,956)	234,292
Fund balances, beginning of year	<u>1,915,814</u>	<u>1,915,814</u>	<u>1,915,814</u>	<u>-</u>	<u>1,681,522</u>
Fund balances, end of year	<u>\$ 1,915,814</u>	<u>\$ 2,717,071</u>	<u>\$ 1,965,115</u>	<u>\$ (751,956)</u>	<u>\$ 1,915,814</u>

General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$360,628 higher than the original budget primarily due to the charges for services. There was an increase in the Michigan Transportation Funds due to new trailer registration fees. The actual revenue recognized during 2005 was more than the final amended budget by \$159,150.

The final amended expenditure budget for 2005 was \$440,629 less than the original budget due to a decrease in equipment expense. The actual expenditures recognized during 2005 were more than the final amended budget by \$911,106.

Capital Assets and Debt Administration

As of December 31, 2005, the Lake County Road Commission had invested \$2,801,414 in capital assets. This amount represents a net increase (including additions and deductions) of \$115,567 for 4% as follows:

	<u>2005</u>	<u>2004</u>	
Capital assets not being depreciated			
Land and improvements	\$ 48,825	\$ 48,825	0.00%
Depletable assets	<u>29,709</u>	<u>29,709</u>	0.00%
Subtotal	<u>78,534</u>	<u>78,534</u>	0.00%
Capital assets being depreciated			
Buildings	1,363,180	1,355,595	0.55%
Equipment	4,570,183	4,361,007	4.80%
Infrastructure	<u>1,366,063</u>	<u>917,634</u>	48.87%
Subtotal	<u>7,299,426</u>	<u>6,634,236</u>	10.03%
Total capital assets	7,377,960	6,712,770	9.91%
Total accumulated depreciation	<u>(4,576,546)</u>	<u>(4,026,923)</u>	13.65%
Total net capital assets	<u>\$ 2,801,414</u>	<u>\$ 2,685,847</u>	4.30%

Major capital asset events during the current fiscal year included the following:

Various Resurfacing	\$ 448,429
Equipment	209,176
Buildings	<u>7,585</u>
Total Additions	<u>\$ 665,190</u>

The Lake County Road Commission did not dispose of any capital assets in 2005.

Additional information on the Road Commission's capital assets can be found in note III.B. on page 22.

Long-term debt

At the year end, the Lake County Road Commission had no notes, bonds or installment purchase agreements. The balance of the Road Commission's long-term obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C. to the financial statements.

Economic Factors and Next Year's Budgets and Rates

No significant factors influenced our preparation of the 2006 Road Commission budget.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Lake County Road Commission, P.O. Box 790, Baldwin, Michigan 49304.

BASIC FINANCIAL STATEMENTS

LAKE COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2005

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and interest bearing deposits	\$ 1,178,643	\$ -	\$ 1,178,643
Accounts receivable			
State trunkline maintenance	89,406	-	89,406
Due on county road agreements	41,737	-	41,737
Motor vehicle highway funds	428,837	-	428,837
Inventories			
Equipment material and parts	40,830	-	40,830
Road materials	258,270	-	258,270
Capital assets			
Land and improvements	-	48,825	48,825
Depletable assets	-	29,709	29,709
Property and equipment - net of accumulated depreciation	-	1,646,489	1,646,489
Infrastructure - net of accumulated depreciation	-	1,076,391	1,076,391
Total assets	<u><u>\$ 2,037,723</u></u>	<u><u>\$ 2,801,414</u></u>	<u><u>\$ 4,839,137</u></u>
LIABILITIES			
Accounts payable	\$ 52,896	\$ -	\$ 52,896
Accrued liabilities	19,712	-	19,712
Long-term liabilities			
Due within one year	-	32,287	32,287
Due after one year	-	175,662	175,662
Total liabilities	<u>72,608</u>	<u>207,949</u>	<u>280,557</u>
Fund Balance/Net Assets			
Fund balance			
Reserved for inventory	299,100	(299,100)	-
Unreserved, undesignated	1,666,015	(1,666,015)	-
Total fund balance	<u>1,965,115</u>	<u>(1,965,115)</u>	<u>-</u>
Total liabilities and fund balance	<u><u>\$ 2,037,723</u></u>		
Net Assets:			
Invested in capital assets		2,801,414	2,801,414
Unrestricted		1,757,166	1,757,166
Total net assets		<u><u>\$ 4,558,580</u></u>	<u><u>\$ 4,558,580</u></u>

The accompanying notes are an integral part of these financial statements.

LAKE COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2005

Fund balances - General Fund	\$ 1,965,115
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - land	48,825
Add - depletable assets	29,709
Add - property and equipment	5,933,363
Add - infrastructure	1,366,063
Deduct - accumulated depreciation	(4,576,546)

Long-term accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(207,949)</u>
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Net assets of governmental activities	<u><u>\$ 4,558,580</u></u>
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The accompanying notes are an integral part of these financial statements.

LAKE COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 3,410,672	\$ 543,813	\$ 3,954,485
Capital outlay	670,105	(665,190)	4,915
Total expenditures/expenses	<u>4,080,777</u>	<u>(121,377)</u>	<u>3,959,400</u>
Program revenue			
Charges for services	687,307	-	687,307
Operating grants and contributions			
State transportation funds	2,806,877	-	2,806,877
Capital grants and contributions			
Federal and state sources	<u>612,974</u>	<u>-</u>	<u>612,974</u>
Total program revenues	<u>4,107,158</u>	<u>-</u>	<u>4,107,158</u>
Net program revenue			<u>147,758</u>
General revenue			
Interest and rents	15,663	-	15,663
Contributions	5,068	-	5,068
Reimbursements	<u>2,189</u>	<u>-</u>	<u>2,189</u>
Total general revenue	<u>22,920</u>	<u>-</u>	<u>22,920</u>
Total revenue	<u>4,130,078</u>		
Revenue over (under) expenditures	49,301	(49,301)	-
Changes in net assets	-	170,678	170,678
Fund balance/net assets:			
Beginning of the year	<u>1,915,814</u>	<u>2,472,088</u>	<u>4,387,902</u>
End of the year	<u><u>\$ 1,965,115</u></u>	<u><u>\$ 2,593,465</u></u>	<u><u>\$ 4,558,580</u></u>

The accompanying notes are an integral part of these financial statements.

LAKE COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2005

Revenues over expenditures - General Fund	\$ 49,301
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	216,761
Add - Infrastructure purchases	448,429
Deduct - depreciation expense	(549,623)

The change in the accrued compensated absences is reported as an expense in the statement of activities but does not require the use of current financial resources and therefore is not reported as an expenditure in the General Fund.

5,810

Change in net assets of governmental activities	<u><u>\$ 170,678</u></u>
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The accompanying notes are an integral part of these financial statements.

LAKE COUNTY ROAD COMMISSION

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
State sources				
Michigan Transportation funds				
Engineering	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Snow removal	78,500	85,371	85,371	-
Allocation	2,770,000	2,703,605	2,711,506	7,901
Exchange of federal funds for state funds	181,000	408,589	450,888	42,299
Conservation resource alliance	-	-	64,249	64,249
Economic development funds				
Forest Road (E)	98,000	97,837	97,837	-
Contributions				
Townships	81,000	85,274	152,629	67,355
Other	7,000	2,392	-	(2,392)
Charges for services				
State trunkline maintenance	382,000	563,555	533,093	(30,462)
Salvage sales	1,500	1,485	1,585	100
Interest and rentals	1,300	12,820	15,663	2,843
Other revenue				
Contributions	-	-	5,068	5,068
Reimbursements	-	-	2,189	2,189
Total revenue	<u>\$ 3,610,300</u>	<u>\$ 3,970,928</u>	<u>\$ 4,130,078</u>	<u>\$ 159,150</u>

LAKE COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
Primary Road				
Heavy maintenance	\$ 115,000	\$ 345,365	\$ 362,063	\$ (16,698)
Maintenance	1,150,000	1,151,079	1,419,176	(268,097)
Local Road				
Heavy maintenance	-	76,679	91,281	(14,602)
Maintenance	1,500,000	1,371,917	1,719,368	(347,451)
Structure maintenance	60,000	-	-	-
Total maintenance	2,825,000	2,945,040	3,591,888	(646,848)
State trunkline maintenance	382,000	453,099	484,271	(31,172)
Equipment expense (net)	270,000	(259,136)	(99,841)	(159,295)
Administrative expense (net)	260,000	201,760	275,551	(73,791)
Capital outlay (net)	(151,000)	(171,092)	(171,092)	-
Other	24,300	-	-	-
Total expenditures	3,610,300	3,169,671	4,080,777	(911,106)
Net change in fund balance	-	801,257	49,301	(751,956)
Fund balances, beginning of year	1,915,814	1,915,814	1,915,814	-
Fund balances, end of year	<u>\$ 1,915,814</u>	<u>\$ 2,717,071</u>	<u>\$ 1,965,115</u>	<u>\$ (751,956)</u>

The accompanying notes are an integral part of these financial statements.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lake County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

A. Reporting Entity

The *Lake County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Lake, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

B. Government-wide and Fund Financial Statements

The government-wide financial *statements* (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities *demonstrates* the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and changes in fund balance and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental* fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

2. Inventory

Inventory, consisting of various operating parts, supplies and road material is stated at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) in 2004 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2005, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

5. Compensated Absences

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Superintendent submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

Deposits

At year-end, the carrying amounts of the Road Commission's deposits were as follows:

	Cash and Cash <u>Equivalents</u>
Certificates of deposit	\$ 58,623
Other demand accounts	<u>1,120,020</u>
	<u>\$ 1,178,643</u>

This entire balance is considered to be deposits for disclosure purposes.

Deposit and investment risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments.

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

Interest Rate Risk. The Road Commission's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Road Commission's investment policy does not have specific limits in excess of state law on investment credit risk. At year-end, the Road Commission had no investments and was therefore, not exposed to credit risk.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. State law does not require and the Road Commission does not have a policy for deposit custodial credit risk. At year-end, \$1,157,038 of the Road Commission's bank balance of \$1,257,038 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Road Commission's investment policy does not have specific limits in excess of state law on concentration of credit risk. At year-end, The Road Commission had no investments and was therefore, not exposed to concentration of credit risk.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Capital assets not being depreciated				
Land and improvements	\$ 48,825	\$ -	\$ -	\$ 48,825
Depletable assets	<u>29,709</u>	<u>-</u>	<u>-</u>	<u>29,709</u>
Total capital assets not being depreciated	<u>78,534</u>	<u>-</u>	<u>-</u>	<u>78,534</u>
Capital assets being depreciated				
Buildings	1,355,595	7,585	-	1,363,180
Road equipment	3,976,503	208,176	-	4,184,679
Shop equipment	133,943	-	-	133,943
Engineers equipment	27,167	-	-	27,167
Yard and storage equipment	142,200	-	-	142,200
Office equipment	81,194	1,000	-	82,194
Infrastructure – roads	<u>917,634</u>	<u>448,429</u>	<u>-</u>	<u>1,366,063</u>
Total capital assets being depreciated	<u>6,634,236</u>	<u>665,190</u>	<u>-</u>	<u>7,299,426</u>
Less accumulated depreciation				
Buildings	(449,747)	(27,851)	-	(477,598)
Road equipment	(3,163,141)	(340,484)	-	(3,503,625)
Shop equipment	(97,965)	(4,577)	-	(102,542)
Engineers equipment	(19,414)	(1,064)	-	(20,478)
Yard and storage equipment	(97,403)	(12,826)	-	(110,229)
Office equipment	(71,351)	(1,051)	-	(72,402)
Infrastructure – roads	<u>(127,902)</u>	<u>(161,770)</u>	<u>-</u>	<u>(289,672)</u>
Total accumulated depreciation	<u>(4,026,923)</u>	<u>(549,623)</u>	<u>-</u>	<u>(4,576,546)</u>
Net capital assets being depreciated	<u>2,607,313</u>	<u>115,567</u>	<u>-</u>	<u>2,722,880</u>
Total net capital assets	<u>\$ 2,685,847</u>	<u>\$ 115,567</u>	<u>\$ -</u>	<u>\$ 2,801,414</u>

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Increases	(Decreases)	Balance December 31, 2005	Due Within One Year
Compensated absences	<u>\$ 213,759</u>	<u>\$ -</u>	<u>\$ (5,810)</u>	<u>\$ 207,949</u>	<u>\$ 32,287</u>

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 14.24% of annual covered payroll. Road Commission employees are required to contribute 2% of their annual covered payroll to the plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$205,693 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004 the date of the latest actuarial valuation, was 30 years.

LAKE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2003	\$173,049	100%	\$ -
12/31/2004	188,444	100	-
12/31/2005	205,693	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2002	\$ 4,412,215	\$ 6,169,036	\$ 1,756,821	72%	\$ 1,185,945	148%
12/31/2003	4,627,401	6,392,274	1,764,873	72	1,219,313	145
12/31/2004	4,854,999	6,781,539	1,926,540	72	1,180,521	163

B. Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

C. Contingencies

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

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OPERATING FUND SCHEDULES

LAKE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2005

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Revenues				
State sources				
Michigan transportation funds				
Engineering	\$ 5,113	\$ 4,887	\$ -	\$ 10,000
Snow removal	43,652	41,719	-	85,371
Allocation	1,385,405	1,326,101	-	2,711,506
Other				
Exchange of federal funds for state funds	450,888	-	-	450,888
Conservation resource alliance - contract # STE 43900-74568A	64,249	-	-	64,249
Economic development funds				
Forest roads (E)	66,978	30,859	-	97,837
Contributions from local units				
Townships	-	-	152,629	152,629
Charges for services				
State trunkline maintenance	-	-	533,093	533,093
Salvage sales	-	-	1,585	1,585
Interest and rentals	-	-	15,663	15,663
Other				
Contributions	-	-	5,068	5,068
Reimbursements	-	-	2,189	2,189
Total revenues	<u>\$ 2,016,285</u>	<u>\$ 1,403,566</u>	<u>\$ 710,227</u>	<u>\$ 4,130,078</u>

LAKE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2005

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Expenditures				
Heavy maintenance				
Roads	\$ 362,063	\$ 91,281	\$ -	\$ 453,344
Maintenance				
Roads	1,091,035	1,449,069	-	2,540,104
Winter maintenance	323,594	268,687	-	592,281
Traffic control	4,547	1,612	-	6,159
Total maintenance	1,781,239	1,810,649	-	3,591,888
State trunkline maintenance	-	-	484,271	484,271
Equipment expense (net)	(29,112)	(53,969)	(16,760)	(99,841)
Administrative expense (net)	136,647	138,904	-	275,551
Capital outlay (net)	-	-	(171,092)	(171,092)
Total expenditures	<u>\$ 1,888,774</u>	<u>\$ 1,895,584</u>	<u>\$ 296,419</u>	<u>\$ 4,080,777</u>

LAKE COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2005

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Total revenues	\$ 2,016,285	\$ 1,403,566	\$ 710,227	\$ 4,130,078
Total expenditures	<u>1,888,774</u>	<u>1,895,584</u>	<u>296,419</u>	<u>4,080,777</u>
Revenues over (under) expenditures	127,511	(492,018)	413,808	49,301
Other financing sources (uses)				
Intrafund transfers	<u>-</u>	<u>492,509</u>	<u>(492,509)</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other (uses)	127,511	491	(78,701)	49,301
Fund balance, beginning of year	<u>974,978</u>	<u>-</u>	<u>940,836</u>	<u>1,915,814</u>
Fund balance, end of year	<u>\$ 1,102,489</u>	<u>\$ 491</u>	<u>\$ 862,135</u>	<u>\$ 1,965,115</u>